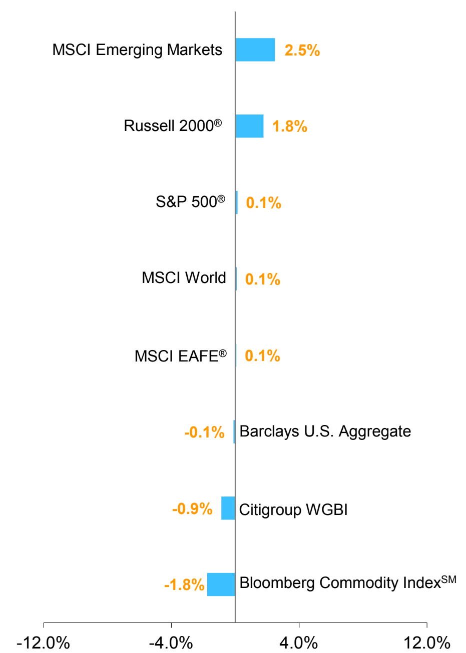
ASSET ALLOCATION INSIGHTS

Mellon Capital's month in review and month-end model outlook.

THE MONTH IN REVIEW

Global developed market equities were flat during August, with the MSCI World Index rising 0.1%. Emerging markets outperformed developed equities as they benefited from continued stabilization in economic data and a bottoming in commodity prices. Global sovereign bond yields were mostly higher, with the exception of the U.K., where yields fell to all-time lows. Commodities fell in August due mainly to negative returns from industrial metals, where deterioration in Chinese economic data weighed on the demand outlook. Favorable growing conditions and record yields weighed on grain prices. In contrast, energy generated a positive return, boosted by a 10.8% increase in the price of Brent crude. The U.S. dollar rose against most other currencies as the Federal Reserve's (Fed) minutes were slightly more hawkish while Fed Chair Janet Yellen noted that the case for another rate hike had increased in recent months. Global economic data was moderately weaker. U.S. non-farm payrolls and durable goods were better than forecast, while retail sales and ISM manufacturing were weaker. Chinese data was softer, with retail sales, industrial production, and lending and investment weakening moderately. European data was mixed, with Purchasing Manager Indexes (PMI) holding ground while >>

MARKET PERFORMANCE–AUGUST 2016



PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

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Mellon Capital

other sentiment surveys declined. On a positive note, U.K. economic data suggested a more modest slowdown following the Brexit than expected. The Bank of England announced a larger-than-expected monetary stimulus package to combat the expected economic weakness post Brexit.

MONTH END MODEL OUTLOOK

GLOBAL ASSET ALLOCATION

While our valuation models continue to find global equities relatively attractive compared to global bonds, we continue to devote less risk to directional positions as we see more relative value opportunities.

Our valuation methodology indicates that U.S. stocks remain attractive relative to U.S. corporate bonds and cash. While earnings have been revised downward, bond yields remain near historic lows, causing our measure of the risk premium to favor equities.

CROSS-COUNTRY RELATIVE VALUE

We continue to favor Eurozone and Japanese stocks as both exhibit relatively attractive valuations especially given their year-to-date underperformance. Conversely, we dislike U.S. stocks due to slower earnings growth and recent outperformance.

Among sovereign bonds, we prefer U.S. and Japanese bonds. The U.S. term premium remains high relative to other global bond markets, while Japanese bonds act as a diversifier to our other bond positions. Conversely, German and U.K. bonds are unattractive to us as term premiums are narrow.

CURRENCY

The U.S. dollar remains attractive based on relative economic fundamentals and expectations for the Federal Reserve (Fed) to gradually raise interest rates. The Norwegian krone is also an attractive long position due to continued improvement in macro data. We are bearish on the euro and the pound. Negative interest rates and an aggressive quantitative easing program make the euro an attractive short position. We dislike the British pound due weak macro signals and an expanded quantitative easing program from the Bank of England.

COMMODITIES

We see the largest divergence among signals within grains. Wheat appears unattractive due to the negative roll yield and inventory overhang, and corn has become unattractive based on momentum and inventories. In contract, signals for soybeans and soybean oil remain relatively favorable. In the energy sector we still see downward pressure on natural gas as the bearish curve shape persists. We continue to hold modest long position in industrial metals where we like aluminum and nickel due to relatively low inventory levels. >>

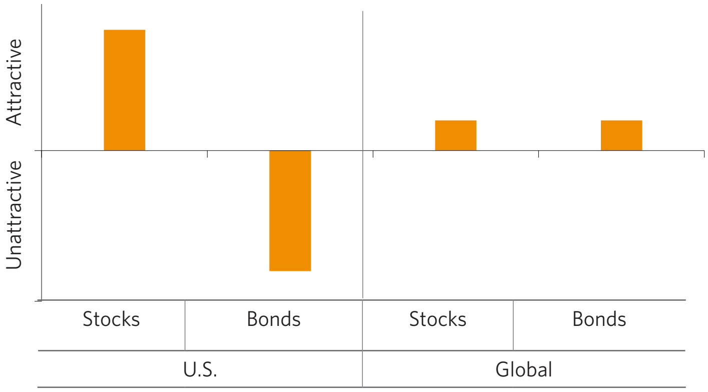
THE U.S. DOLLAR REMAINS ATTRACTIVE BASED ON RELATIVE ECONOMIC FUNDAMENTALS AND EXPECTATIONS FOR THE FED TO GRADUALLY RAISE INTEREST RATES.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

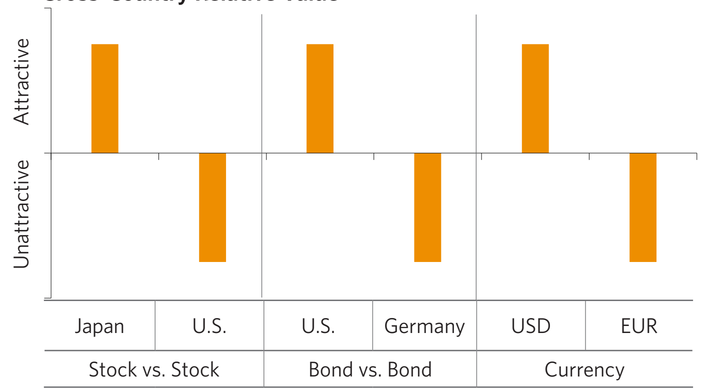
Live cattle is attractive on a long calendar spread basis, while we hold a bear spread in soybeans as we expect the near-term contracts to underperform longer-dated contracts.

SIGNIFICANT RELATIVE OPPORTUNITIES: MONTH END OUTLOOK

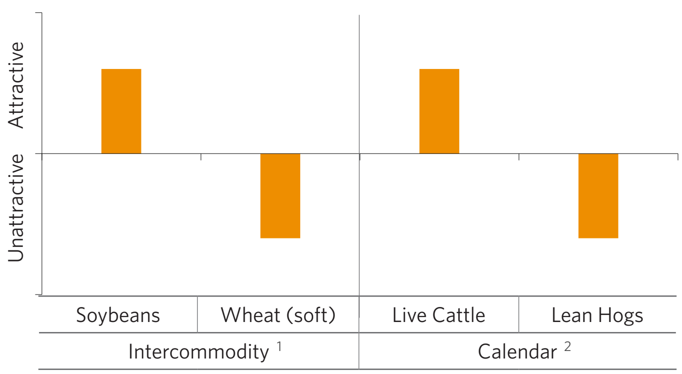
Global Asset Allocation



Cross-Country Relative Value



Commodities



1. The Intercommodity signal attempts to determine a commodity's attractiveness versus other commodities using proprietary models.
2. The Calendar signal measures the relative attractiveness of a commodity's near-term contract versus longer-term contracts using proprietary models.

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The MSCI EAFE® Index (US$) is a market capitalization weighted benchmark designed to measure the performance of large and mid capitalization stocks of the developed stock markets of Europe, Australia, and the Far East.

The MSCI World Index is a market capitalization weighted benchmark designed to measure the performance of large and mid capitalization stocks of the developed stock markets of Europe, Australia, the Far East and North America.

The Barclays U.S. Aggregate Index is a broad representation of the U.S. investment-grade fixed income market including Treasuries, government-related issues, securitized assets, and U.S. credit dollar-denominated issues with a minimum term to maturity of one year.

The Citigroup World Government Bond Index (WGBI) is market capitalization weighted index and tracks total returns of 23 developed country government bonds with having a minimum term to maturity of one year.
The MSCI Emerging Markets Index is a market capitalization index designed to measure the performance of large and mid capitalization stocks of emerging markets.

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